

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2012-177-WS

IN RE: Application of Tega Cay Water Service,)	REBUTTAL TESTIMONY
Incorporated for Approval of an Increase)	
In its Rates for Water and Sewer Services)	OF
Provided to All of Its Service Areas in)	
South Carolina)	KIRSTEN MARKWELL
_____)	

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 **A.** My name is Kirsten Markwell. I am employed as a Manager of Regulatory
4 Accounting at Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

6 **Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?**

7 **A.** I have been employed by Utilities, Inc. since August of 2002. Since that
8 time I have been involved in several phases of rate-making in many regulatory
9 jurisdictions. I graduated from Coe College in 2001 with a BA in Accounting, and
10 I have passed the CPA exam. I received my MBA from DePaul University in
11 2011. I had one year of public accounting/auditing experience prior to joining
12 Utilities, Inc., and have successfully completed the utility regulation seminar
13 sponsored by NARUC.

15 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES,**
16 **INC.**

17 **A.** My responsibilities include: financial analysis of individual subsidiaries of
18 Utilities, Inc., preparation of rate applications, facilitation of regulatory audits, and
19 the submission of testimony and exhibits to support rate applications. These

responsibilities relate specifically to our regulated utilities in Arizona, Florida, Georgia, Louisiana, Nevada, and South Carolina.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to certain adjustments in the direct testimony of Christina L. Seale in Docket No. 2012-177-WS, related to Tega Cay Water Service's (TCWS) application for an increase in rates and charges. Specifically, I will be rebutting adjustments 5, 9, 18, 19, 25, 33, and 35. Dylan D'Ascendis will be discussing and rebutting adjustment 39.

Q. DOES TCWS AGREE TO ANY OF THE ADJUSTMENTS MADE BY MS. SEALE IN CLS-4?

A. Yes, TCWS agrees to adjustments 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 22, 23, 24, 26, 29, 34, 37, 38. Adjustments 27, 28, 30, 31, 32, 36, 40, 41, 42, 43, 44 and 45 are fall out items.

Q. DOES TCWS AGREE WITH THE PURCHASED WATER ADJUSTMENT IN CLS-4? THIS IS ADJUSTMENT 5.

A. No, TCWS does not agree to this adjustment.

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE PURCHASED WATER ADJUSTMENT, ADJUSTMENT 5 IN CLS-4.

A. TCWS is a water distribution system and has a purchased water pass through. This means that for every dollar charged to us by the purchased water provider, a dollar is passed through to the ratepayer. This practice should result in a zero balance in purchased water at year end.

However, due to timing differences, it is not at all uncommon to have a

1 minor amount of money, whether it be an under-collection or an over-collection,
2 remaining in the purchased water account at year end. In TCWS's case, a small
3 over-collection of \$2,508 remained as the balance in purchased water at year end.
4 TCWS proposed to zero out this amount of money to reflect the fact that
5 purchased water pass through provisions should be dollars in, dollars out. ORS
6 proposed to leave the \$2,508 over-collection in operation and maintenance
7 expenses.

8 In TCWS's sister systems, and most recently in CWS's last rate case, ORS
9 has agreed with the Company and proposed to zero out any remaining balance in
10 purchased water since a pass through provision suggests no need for recovery of
11 any purchased water expenses through the course of a general rate increase.
12 Therefore, TCWS asks the Commission find the appropriate balance in its
13 purchased water account to be zero.
14

15 **Q. WHY DOES TCWS DISAGREE WITH ORS'S INCREASE TO**
16 **MAINTENANCE EXPENSES IN ADJUSTMENT 9 ON CLS-4?**

17 **A.** TCWS disagrees with this adjustment because these items should remain
18 capitalized and included for recovery in rate base. My colleague, Patrick Flynn,
19 will discuss in further detail why these were properly capitalized on the
20 Company's books and why they should remain capitalized. Because they are
21 remaining as part of rate base, TCWS proposes zero adjustment to O&M expense
22 for these items.
23

24 **Q. PLEASE DISCUSS WHY TCWS CANNOT AGREE TO THE RATE CASE**
25 **EXPENSE CALCULATED BY MS. SEALE IN ADJUSTMENT 18 OF CLS-**
26 **4.**

27 **A.** TCWS opposes ORS's adjustment to rate case expense for several reasons.

1 First, ORS has not allowed any costs past November 1, 2012, and in fact, ORS
2 excluded two invoices that were posted prior to that cutoff date. The inclusion of
3 the latter raises rate case expense through the cutoff date to \$26,089.

4 Second, the ORS has not included any estimate for costs that will be
5 incurred through the hearing. It is proper to include costs that will be incurred
6 through the hearing; otherwise TCWS will have no opportunity to recoup
7 legitimate rate case expenses. Currently, TCWS estimates an additional \$42,500 of
8 legal, consulting, and administrative costs, as well as \$3,257 related to travel,
9 making the total costs requested for the current rate case \$71,846 (KEM Exhibit 1,
10 w/p [d]. Consistent with the practice in previous rate cases, TCWS will
11 provide the ORS and to the Commission a late filed exhibit of the final accounting
12 for rate case costs, including support for these costs, no later than 15 days after the
13 hearing, and asks the Commission to request that the ORS review the exhibit and
14 make recommendations. This arrangement will provide the Company an
15 opportunity to recover its costs and provides the Commission the opportunity for
16 review before a final decision is made.

17 .

18 **Q. IS THERE ANY PORTION OF THE RATE CASE EXPENSE**
19 **ADJUSTMENT IN WHICH TCWS AND ORS AGREE?**

20 **A.** Yes. TCWS and ORS both agree that the total costs of the current case
21 should be added to the unamortized balance of the prior rate case and that total
22 balance should be amortized over three years.

23
24 **Q. WHAT IS TCWS'S TOTAL RATE CASE EXPENSE AND WHAT IS THE**
25 **AMORTIZATION EXPENSE PER YEAR?**

26 **A.** TCWS proposes a total rate case expense of \$109,640. This expense, amortized
27 over three years, amounts to \$36,547 of O&M expense per year, with \$18,387

1 attributable to water and \$18,160 attributable to sewer. Please see KEM Exhibit 1,
2 w/p [d].

3
4 **Q. WHAT DISAGREEMENTS DOES THE COMPANY HAVE WITH ORS IN**
5 **ITS PENSION AND OTHER BENEFITS ADJUSTMENT? (ADJUSTMENT**
6 **19 ON CLS-4).**

7 **A.** First, allow me state that ORS and TCWS agree on both the salary expense,
8 payroll tax expense, health insurance, and other benefits expense to be included
9 for recovery in this case. However, we disagree on the correct amount of benefits
10 to include; specifically, we disagree on whether the Company's 401(k)
11 contribution should be 3% of salaries or 7% of salaries.

12
13 **Q. WHY DOES THE COMPANY BELIEVE 7% OF SALARIES SHOULD BE**
14 **INCLUDED IN ITS BENEFITS EXPENSE AS THE 401(K)**
15 **CONTRIBUTION?**

16 **A.** The Company offers a 401(k) matching plan, coupled with a 401(k)
17 performance based plan. Utilities, Inc. will contribute a 50% match of an
18 employee's 401(k) contribution up to 6%. So, if an employee contributes 3%,
19 Utilities, Inc. will match 1.5%. A 6% contribution by an employee provides them
20 a Utilities, Inc. match of 3%. Since it's a maximum of 50% up to 6% for the
21 employee, a 10% contribution on the employee's part would also warrant a 3%
22 contribution from Utilities, Inc.

23 In addition to the 401(k) program, Utilities, Inc. offers a performance based
24 program. This was introduced in 2010. The performance based program allows
25 for employees to be rewarded through their retirement plan at the end of the year.
26 The performance based plan is discretionary, but is awarded to all employees,
27 regardless of whether they contribute to a 401(k). This is not an individual-based

1 contribution; it's a company-wide contribution given to all employees. In the two
2 previous years (2010 and 2011), contributions by Utilities, Inc. was 4%. Prior to
3 that, Utilities, Inc. contributed 4% to its employees' pension funds. This shows a
4 consistent trend of 4% contribution for several years. Because the Company can
5 easily show that its contribution for the old pension and the new performance
6 based 401(k) plan trends at 4%, it is reasonable and appropriate to include a total
7 of 7% (3% matching + 4% performance based) of salaries as 401(k) expense.

8 Based on this calculation, it is appropriate to include total pension and other
9 benefits expense of \$60,130, with \$30,252 attributable to water and \$29,878
10 attributable to sewer (KEM Exhibit 1, w/p [b]). Of that amount, \$17,614 is related
11 to the 401(k) expense of 7% of salaries.

12
13 **Q. THERE ARE THREE MORE ADJUSTMENTS WITH WHICH YOU**
14 **DISAGREE – ADJUSTMENTS 25, 33, AND 35 FROM CLS-4. HOW WILL**
15 **YOU DISCUSS THESE ADJUSTMENTS?**

16 **A.** I'll be addressing these adjustments together, since plant in service,
17 accumulated depreciation, and depreciation expense are intertwined. However,
18 there are some general comments that need to be made and addressed before I
19 begin the plant in service discussion.

20
21 **Q. WHAT ARE THESE GENERAL COMMENTS AND CONCERNS?**

22 **A.** Generally speaking, depreciation must be calculated by taking the gross
23 depreciable plant from the AA ledger (TCWS's daily operations ledger) and
24 multiplying that by TCWS's depreciation rate of 1.5%. Then, depreciation for
25 vehicles, computers, and any other allocations can be added back in. This ensures
26 that all depreciation is accounted for at its correct rate, because allocated items
27 depreciate faster than TCWS's gross plant in service (i.e., vehicles depreciate

1 faster than wells).

2 With that framework explained, please see KEM Exhibit 1, w/p [f] for
3 TCWS's calculation of depreciation expense. I will now discuss detailed
4 adjustments within the depreciation expense calculation.
5

6 **Q. ARE THERE ANY REDUCTIONS TO GROSS PLANT IN SERVICE**
7 **THAT THE COMPANY FEELS IS NECESSARY?**

8 **A.** Yes. The Company agrees with ORS in the reduction of water plant in
9 service by \$3,274 and sewer plant in service by \$8,140 (KEM Exhibit 1, w/p [n].
10 This reduction accounts for invoices that could not be located or invoices that were
11 not related to TCWS. Therefore, they should be excluded for ratemaking
12 purposes. They have been excluded from the calculation of gross plant in service
13 on KEM Exhibit 1, Schedule C, as well as from the calculation of depreciation
14 expense on KEM Exhibit 1, w/p [f]. The accumulated depreciation taken on these
15 items has also been removed for ratemaking purposes; see KEM Exhibit 1, w/p
16 [f]-1.

17 The Company also agrees with ORS in the reduction of gross plant in
18 service due to ORS recommendations in TCWS's previous rate case, which the
19 Company did not contest. This reduction of \$208,958, \$825, and \$59,903 for
20 water and \$107,114 for sewer is presented in the calculation of gross plant in
21 service on KEM Exhibit 1, Schedule C, as well as from the calculation of
22 depreciation expense on KEM Exhibit 1, w/p [f]. Accumulated depreciation taken
23 on these amounts for the past three years has been removed from the balance of
24 accumulated depreciation included in this filing. Please see KEM Exhibit 1, w/p
25 [f]-1.
26

27 **Q. DOES ORS MAKE ANY ADDITIONAL ADJUSTMENTS TO TEST YEAR**

1 **UTILITY PLANT IN SERVICE (UPIS)?**

2 **A.** ORS reduced UPIS for the amount of items TCWS capitalized that it
3 believed should have been expensed in 2010 and 2011. This amount totaled
4 \$80,739 for water and \$44,793 for sewer. Again, my colleague Patrick Flynn
5 discusses in his testimony why these items should remain capitalized.

6
7 **Q. WHAT OTHER ADJUSTMENTS AND INCLUSIONS HAS TCWS MADE**
8 **TO PLANT?**

9 **A.** TCWS has included what it believes to be the proper 2012 general ledger
10 additions allowed in this case. These additions are itemized on KEM Exhibit 1,
11 w/p [l], and totals \$10,399 for water and \$195,125 for sewer. They are shown as
12 an addition to rate base on KEM Exhibit 1, Schedule C as “General Ledger
13 Additions”. The sewer number differs from ORS; ORS’s amount of \$142,553
14 excludes \$52,572 of invoices they believe should have been expensed. My
15 colleague, Patrick Flynn, will discuss why these items were properly capitalized
16 and should remain as part of rate base.

17 TCWS has included its large capital project, collection system
18 improvements for recovery in this rate case. ORS has allowed the project, but
19 ORS and TCWS differ on the amount to include. TCWS believes the Commission
20 should allow \$1,108,872 in rate base, while ORS’s amount for the project is
21 \$1,033,886. TCWS agrees with ORS that the amount related to the collection
22 system audit should be removed (\$27,698, see KEM Exhibit 1, w/p [j], line 1091).
23 In addition, TCWS and ORS can agree that \$27,286 should be excluded from the
24 project due to invoices that could not be located or were duplicated. ORS
25 excludes two other items. First, the ORS excludes an additional \$47,261 related to
26 the engineering for the project. Second, the ORS excludes an invoice from TNT
27 for \$27,725, who excavated and removed the existing clay pipe, installed 6” PVC

sewer pipe, made the connection to manholes at both ends of the pipe run, reconnected three sewer services, and restored the work area. The engineering for the project should be included in the total project cost, as should the TNT invoice. Further justification for this is provided in the testimony of Patrick Flynn. Therefore, as illustrated in the table below, based on the proper accounting for the collection system improvements project, the Commission should include \$1,108,872 in rate base.

Project 2011025		
	TCWS	ORS
Project Cost Per Books	1,163,856	1,163,856
Unavailable/Duplicate Invoices	(27,286)	(27,286)
Collection System Audit Costs	(27,698)	(27,698)
Engineering Costs	-	(47,261)
TNT Invoice	-	(27,725)
Total Project Cost for Rate Case	1,108,872	1,033,886

Q. IS THERE A RETIREMENT ASSOCIATED WITH THE PRO FORMA PROJECT?

A. Yes, a retirement of \$127,725 has been proposed for the pro forma project. Both ORS and TCWS agree on this retirement amount.

Q. HAS DEPRECIATION BEEN TAKEN ON THE 2012 GENERAL LEDGER ADDITIONS AND THE PRO FORMA PROJECT?

A. Yes, TCWS has calculated depreciation expense and a full year of accumulated depreciation on these general ledger additions as well as on the pro forma project. Please see KEM Exhibit 1, w/p [f] and w/p [f]-1.

Q. ARE THERE ANY OTHER DIFFERENCES TO UTILITY PLANT IN

1 **SERVICE BETWEEN TCWS AND ORS?**

2 **A.** Yes. Similar to its direct testimony, TCWS proposes an adjustment to
3 vehicles based on the appropriate allocation of the driver. For example, if an
4 operator's salary allocation to TCWS is 40%, that operator's vehicle should be
5 allocated at 40% as well. Based on this methodology, the appropriate amount of
6 vehicles to include for TCWS is \$114,870, of which \$47,935 is allocated to water
7 and \$66,935 is allocated to sewer. However, TCWS's adjusted vehicle balance of
8 \$114,870 differs from ORS's balance of \$107,013. TCWS is reasonably sure that
9 ORS did a similar calculation, however, no support for this adjustment was
10 provided in their testimony, and the plant calculation workpaper provided when
11 requested only showed a balance rather than a calculation. Please see KEM
12 Exhibit 1, w/p [m] for the calculation of TCWS's vehicle assets.

13
14 **Q. DOES TCWS PROPOSE ANY DEPRECIATION ADJUSTMENTS**
15 **ASSOCIATED WITH THE VEHICLES DISCUSSED ABOVE?**

16 **A.** Yes. Similar to ORS, TCWS proposes that vehicles be depreciated over six
17 years. We also removed the asset cost for vehicles that are fully depreciated as of
18 November 1, 2012 (ORS's cutoff date). However, ORS arrives at an adjustment
19 of (\$33,082) for fully depreciated vehicles, and TCWS arrives at an adjustment of
20 (\$63,221) for fully depreciated vehicles. ORS has not provided any support in its
21 testimony for its calculation of fully depreciated vehicles. TCWS has removed the
22 asset cost for these fully depreciated vehicles in KEM Exhibit 1, w/p [f], and has
23 depreciated the remaining asset balance over six years. TCWS's explanation of
24 which vehicles were accounted for as fully depreciated vehicles is shown on KEM
25 Exhibit 1, w/p [f].

26 In its related accumulated depreciation adjustment, TCWS has also
27 removed the accumulated depreciation for fully depreciated vehicles, as well as

1 accruing another year of accumulated depreciation at the six year life. This
2 adjustment is shown on KEM Exhibit 1, w/p [f]-1.

3
4 **Q. BASED ON THE ADJUSTMENTS ABOVE, WHAT IS THE FINAL GROSS**
5 **PLANT IN SERVICE AMOUNT TO INCLUDE IN RATE BASE?**

6 **A.** Based on the above, the Commission should include \$2,959,342 as plant in
7 service for water, and \$12,383,586 as plant in service for sewer. The table below
8 itemizes these amounts once more.

Utility Plant in Service	Water	Sewer
Per Books	3,265,714	11,346,250
Prior Commission Adjustments	(269,686)	(107,114)
Missing/Non-TCWS Invoices	(3,274)	(8,140)
Vehicle Adjustment	(44,309)	(24,173)
Captive Adjustment	498	491
2012 General Ledger Additions	10,399	195,125
Pro Forma Plant		1,108,872
Pro Forma Retirement		(127,725)
Total UPIS	2,959,342	12,383,586

9
10 **Q. BASED ON THE ADJUSTMENTS ABOVE, WHAT IS THE FINAL**
11 **ACCUMULATED DEPRECIATION AMOUNT TO INCLUDE IN RATE**
12 **BASE?**

13 **A.** Based on the above, the Commission should include \$994,362 as
14 accumulated depreciation for water and \$3,130,817 as accumulated depreciation
15 for sewer. The detailed adjustments for accumulated depreciation can be found in
16 KEM Exhibit 1, w/p [f]-1.

17
18 **Q. BASED ON THE ADJUSTMENTS ABOVE, WHAT IS THE FINAL**
19 **DEPRECIATION EXPENSE AMOUNT TO INCLUDE IN RATE BASE?**

20 **A.** Based on the above, the Commission should include \$61,756 as

1 depreciation expense for water and \$202,933 as depreciation expense for sewer.
2 The detailed adjustments for depreciation expense can be found in KEM Exhibit 1,
3 w/p [f].
4

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.